CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 18, 2006

H.R. 5359
A bill to amend the automobile fuel economy provisions of title 49, United States Code, to authorize the Secretary of Transportation to set fuel economy standards for passenger automobiles based on one or more vehicle attributes

As ordered reported by the House Committee on Energy and Commerce on May 10, 2006

CBO estimates that implementing H.R. 5359 would have no significant impact on federal spending. Enacting the bill might lead to a change in federal revenues, but that would depend on future decisions by the Secretary of Transportation that CBO cannot predict.

The Secretary of Transportation is currently authorized to set corporate average fuel economy (CAFE) standards for cars and light trucks sold in the United States. H.R. 5359 would authorize the Secretary to set varying CAFE standards for cars based on size, class, or other characteristics that affect fuel consumption. Under current law, a single CAFE standard for cars applies to the average fuel efficiency of all cars sold by manufacturers, regardless of size or other characteristics. (The CAFE standards for light trucks were recently revised and are now based on vehicle size.)

The National Highway Traffic Safety Administration (NHTSA), within the Department of Transportation, administers the fuel economy program. Based on information from the agency, CBO estimates that implementing H.R. 5359 would have no significant impact on the agency's workload. CBO cannot predict whether the Administration would develop a new CAFE standard under current law, under the bill, or both. In any event, we expect that NHTSA's costs would not be affected significantly.

If NHTSA chose to modify the CAFE standards for cars as authorized by the bill, the average fuel economy of new vehicles sold in the United States might rise above the levels already anticipated under current law. (Even without a change in law, average fuel economy will probably increase somewhat in response to higher fuel prices.) A change in the CAFE standards could affect fuel consumption, excise tax revenues, and penalties imposed on manufacturers for not complying with the standard. If the overall fuel economy of automobiles was increased above that which would be realized under current law, reductions in fuel usage would yield reduced excise taxes on motor fuels. However, some firms might find it preferable to pay penalties instead of complying with the higher fuel economy standards, which would increase revenues from penalties. In any case, any change in federal revenues would probably not occur for several years because it would take time for NHTSA to assess the options and adopt the new standards, and because changes in fuel economy standards in the past have been structured to provide automakers with time to adjust to the new standards.

Fuel efficiency improvements can have substantial effects on excise taxes from motor fuels. For example, whether caused by a change in CAFE standards or rising fuel prices, an increase in the fuel efficiency of all new cars beginning in 2010 of one mile per gallon above the amount expected under current law could reduce excise tax revenues by $300 million a year by 2016. That amount would increase over time as consumers purchase new vehicles. Penalties that automakers pay for violations of CAFE standards have amounted to tens of millions of dollars in recent years. Thus, in most cases, CBO would expect a binding increase in CAFE standards to result in a net reduction of federal revenues.

H.R. 5359 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no direct costs on state, local, or tribal governments. The bill could impose a private-sector mandate, as defined in UMRA, on manufacturers of passenger automobiles if the Secretary implements CAFE standards that are higher than what would have been imposed under current law. Because regulations to set any new standard have not been established and DOT's plans, if any, to amend the CAFE standard under current law are unknown, CBO cannot determine whether the bill would result in new private-sector mandates. Therefore, CBO cannot determine whether the aggregate direct cost of complying with such private-sector mandates would exceed the annual threshold established by UMRA ($128 million in 2006, adjusted annually for inflation).

The CBO staff contacts for this estimate are Gregory Waring (for federal costs), Emily Schlect (for federal revenues), and Craig Cammarata (for the impact on the private sector). This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.